



**MINUTES FROM MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
May 27, 2020**

A meeting of the Cash Management Policy Board (the “Board”) was held on May 27, 2020 at 10:00 a.m. Pursuant to paragraph 5 of Governor Carney’s Emergency Order, dated March 12, 2020, the meeting was held telephonically, without a physical location.

Board Members Represented or in Attendance:

Mr. John Flynn, Chair  
Mr. Warren Engle, Banking Subcommittee Chair  
Mr. Mike Karia, Investment Subcommittee Co-Chair  
Mr. David Marvin, Investment Subcommittee Co-Chair  
Ms. Tarrie Miller, Board Member  
The Honorable Colleen Davis, State Treasurer  
Mr. Richard Geisenberger, Secretary, Department of Finance

Board Members Not Represented or in Attendance:

Mr. Michael Morton, Controller General  
Mr. Jeffrey Bullock, Secretary, Department of State

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Liza Druck Davis, Deputy State Treasurer, Office of the State Treasurer (“OST”)  
Mr. Daniel Madrid, Chief Operating Officer, OST  
Ms. Fiah Kwesseu, Director of Operations & Fund Management, OST  
Ms. Lisa Embert, Director of Reconciliations and Transaction Management, OST  
Mr. Brennon Fountain, Controller II, OST  
Ms. Dawn Davis, Assistant Cash and Debt Manager, OST  
Mr. Stephen McVay, Asst. Cash and Debt Manager, OST  
Mr. Todd Feeley, Banking Services Implementation Manager, OST  
Mr. Sean McNeeley, Director of Bond Finance, Department of Finance  
Mr. John Krimmel, Partner, NEPC  
Ms. Jennifer Appel, Senior Research Analyst, NEPC

**CALLED TO ORDER**

Mr. Flynn called the meeting to order at 10:03 a.m.

**INTRODUCTIONS**

## **APPROVAL OF THE MINUTES**

**A MOTION was made by Ms. Miller and seconded by Mr. Karia to approve minutes from the Board meeting on February 26, 2020.**

**MOTION ADOPTED UNANIMOUSLY**

## **NEPC PERFORMAN REPORT**

### *2020 1<sup>ST</sup> Quarter Investment Performant Report*

Ms. Appel reported sizeable gains across equities and fixed income asset classes at the end of 2019. Returns continued to compound in January and February due to the focus on U.S.-China relations and the Phase 1 Trade Deal. Things changed in late February to early March as volatility increased across capital markets due to coronavirus-related disruptions. There were significant downward adjustments to domestic and global equity markets. The U.S. government responded with an unprecedented level of economic stimulus, representing 12-15% of nominal GDP. Since mid-March, credit spreads have come back down, and equities have rallied. The easing of travel and business restrictions is also positive. Ms. Appel noted the “disconnect” between equities and bonds. Equities continue to push higher, but bond yields have continued to fall, which makes this environment hard to read. Volatility will continue in the near term due to all the uncertainties surrounding the pandemic. The Board discussed interest rates and the impact the interest rates will have on a business’s ability to obtain bank loans.

Mr. Krimmel presented the Board with an overview of the State’s portfolio performance for Q1 2020. The total portfolio returned 2.77% for the quarter and 4.77% fiscal year-to-date (“YTD”). The combined liquidity and reserve portfolios returned 3.32% for the quarter and 4.91% fiscal YTD. The liquidity portfolio returned 0.47% for the quarter and 1.68% fiscal YTD. The reserve portfolio returned 4.09% for the quarter and 5.77% fiscal YTD. Mr. Krimmel reported strong results from a risk/return basis from the liquidity and reserve managers. The endowment portfolio was down 15.68% for the quarter and 10.64% fiscal YTD. Mr. Krimmel noted that equity markets began to show returns in April.

## **INVESTMENT SUBCOMMITTEE REPORT**

### *Endowment Manager RFP Update and Vote*

Deputy Treasurer Davis reported that the Investment Subcommittee voted to recommend to the full Board that it award the endowment manager contract to Vanguard and SEI. The Investment Subcommittee accepted the recommendation of the evaluation committee and, in turn, recommended a change from three endowment managers to two endowment managers. The Investment Committee also recommended that one portfolio (Vanguard’s) have a passive strategy, with the other portfolio (SEI’s) having an active strategy.

**A MOTION was made by Treasurer Davis and seconded by Mr. Karia to accept the Investment Subcommittee’s recommendations and grant OST authority to commence endowment manager contract negotiations with Vanguard and SEI.**

**MOTION ADOPTED UNANIMOUSLY**

### *Investment Architecture Update and Vote*

Deputy Treasurer Davis reported that on the Investment Subcommittee meeting on April 15, 2020, during which several changes to the existing investment architecture were recommended. The proposed revisions would change liquidity versus reserve balances from dollars to percentages, memorialize a 5%

buffer in the percentages, require all draws and refunding to the reserve accounts be made on a pro-rata basis, and place the Budget Reserve Account and Budget Stabilization Fund within the investment architecture. The Investment Subcommittee also recommended two temporary modifications in response to the fiscal conditions created by the pandemic. Those modifications will increase the maximum liquidity balance by 5% through December 31, 2020 (or such other date as may be approved by the Board) and temporarily move the Budget Stabilization Fund from Tier 2 into the liquidity account.

**A MOTION was made by Mr. Flynn and seconded by Mr. Engle to approve the proposed changes to the Investment Architecture.**

**MOTION ADOPTED UNANIMOUSLY**

**A MOTION was made by Secretary Geisenberger and seconded by Mr. Karia to increase the maximum liquidity balance by 5% through December 31, 2020 and to temporarily move the Budget Stabilization Fund from Tier 2 reserve account to the liquidity account.**

**MOTION ADOPTED UNANIMOUSLY**

*Guidelines for CARES Act Funds Update and Vote*

Deputy Treasurer Davis reported the Investment Subcommittee's recommendation that CARES Act funds remain in money market mutual funds until OMB provides more guidance on when the payments will occur. The CARES Act funds presently are held in separate accounts with PFM and Wilmington Trust.

**A MOTION was made by Secretary Geisenberger and seconded by Mr. Engle to require Wilmington Trust and PFM to invest CARES Act Funds exclusively in money market mutual funds.**

**MOTION ADOPTED UNANIMOUSLY**

*Reserve Manager Communication Update and Vote*

Deputy Treasurer Davis provided an update on the Investment Subcommittee's response to the guideline violations that occurred when airline securities held by Lazard were downgraded in mid-March and subsequently sold in April. Lazard did not timely sell the securities, as required by the Board's investment guidelines, and did not timely notify the Board about the downgrades. During the May 6, 2020 meeting the Investment Subcommittee discussed options for addressing the situation with Lazard. The Investment Subcommittee recommended that OST send a strongly worded letter expressing the dissatisfaction in the way the situation was handled and notifying Lazard of potential consequences for any future lapse in adhering to the guidelines.

**A MOTION was made by Mr. Karia and seconded by Mr. Flynn directing OST to issue a letter to Lazard expressing concerns related to the downgrades on behalf of the Investment Subcommittee.**

**MOTION ADOPTED UNANIMOUSLY**

*Investment Advisor RFP Update*

[Mr. Krimmel and Ms. Appel left the call for the discussion.]

Deputy Treasurer Davis provided an update on the investment advisor RFP, which closed on May 22, 2020. OST received three responses to the RFP, including a proposal from the incumbent advisor, NEPC. Interviews are scheduled for mid-June, and Board members are invited to participate on the

evaluation committee or sit in on the presentations. The goal is to have a finalist recommendation at the August full Board meeting. NEPC's current contract expires on December 31, 2020.

## **BANKING SUBCOMMITTEE REPORT**

### *General Banking Update*

Mr. Madrid presented updated on the general banking project. OST and JP Morgan continue to work through the implementation of the State's architecture following delays in March and April due to the pandemic. The Division of Revenue's banking requirements are currently being reviewed in preparation for the transition to the new Integrated Revenue Administration System ("IRAS"). IRAS is scheduled to go-live in November 2020.

The Office of Unclaimed Property ("OUP") will be the first agency to transition to JP Morgan. OUP is scheduled to go-live late in summer 2020. OST and JP Morgan are meeting with other State agencies to begin implementation over the next several months.

The Department of Labor, Division of Unemployment Insurance and DHSS Child Support Services are utilizing US Bank's Stored Value Card services. Both programs appear to be operating well during the pandemic. While US Bank indicated that callers may experience longer wait times than contemplated in the parties' service-level metrics, US Bank took reasonable steps to and did address those issues. OST is satisfied with US Bank's responsiveness to COVID-related service issues.

Secretary Geisenberger expressed his appreciation for OST's work on the JP Morgan transition.

### *Local Banking Services Update*

Mr. Madrid noted that OST is in final negotiations with the lead vendor for over-the-counter banking services, M & T Bank. Negotiations are expected to be completed in the next week and implementation should begin in the summer. The negotiations with WSFS, TD Bank and Citizens will begin concurrently after M & T Bank negotiations are completed. The anticipated completion date for all negotiations is December 2020.

### *PFM Contract Update*

Mr. Madrid provided an update on the PFM contract. The Board previously granted OST authority to extend the banking consultant contract for six months to spend the remaining funds under the contract. OST will use the remaining funds to address the calculation of the State's daily cash position. PFM's contract will expire on June 30, 2020.

### *Merchant Services Contract Update and Potential Vote*

Mr. Madrid reported on recent merchant services developments. OST is still working with Department of Technology and Information and vendor CampusGuard on PCI compliance. Quarterly scans are conducted on the State's externally facing websites that accept debit and credit card payments. OST is also working with the Division of Corporations on their annual compliance process for PCI. The goal is to reach compliance with as many merchants as possible by year end.

There is an active RFP for a merchant processing and gateway solutions consultant with a May 29, 2020 response deadline. The successful vendor will help OST with the procurement process for merchant processing and gateway services in the late summer.

Bank of America Merchant Services (“BAMS”), the merchant processor partnership between Bank of America and First Data, is dissolving as of June 30, 2020. The State’s contract with BAMS will be assigned either to Bank of America or Fiserv, First Data’s parent company. An introductory meeting with OST, BAMS and the new merchant processor is scheduled for May 14, 2020. The first term of the contract expires in December 2020. OST noted the possibility of issuing an RFP for merchant processing services in summer 2020.

OST was anonymously notified about BAMS’s involvement in active whistleblower litigation with respect to PCI compliance. The whistleblower alleges, and BAMS apparently admits, that BAMS historically shared PAN data with its merchant processing partner, First Data, through unsecured email in connection with chargeback transactions. The whistleblower alleges, and BAMS denies, that BAMS intentionally failed to disclose Bank of America’s PCI compliance and data security issues during negotiations with the State in 2016 and 2017. OST contacted BAMS about the status of the litigation. BAMS was unable to comment on the litigation but confirmed that “cardholder data is handled in accordance with industry standard, including in compliance with PCI DSS.”

#### **OTHER MATTERS OF THE BOARD**

The Board had a brief discussion about appointing Ms. Miller as Banking Subcommittee Co-Chair.

**A MOTION was made by Mr. Marvin and seconded by Mr. Karia that the Board appoint Ms. Miller Co-Chair of the Banking Subcommittee.**

**MOTION ADOPTED UNANIMOUSLY**

#### **EXECUTIVE SESSION**

No executive session was held.

#### **PUBLIC COMMENTS**

No members of the public present for comment.

#### **NEXT MEETING**

The next full Board meeting is scheduled for August 26, 2020.

#### **ADJOURNMENT**

**A MOTION was made by Treasurer Davis and seconded by Ms. Miller to adjourn the meeting of the Subcommittee at 11:18 a.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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John Flynn  
Board Chair